

**Testimony to The Committee on Financial Services  
Subcommittee on Oversight and Investigations  
Adam Clayton Powell State Office Building  
Monday, September 10, 2001**

**I. Introduction to The Enterprise Foundation**

The Enterprise Foundation is a national intermediary, which has been working to improve living conditions in low-income communities from the time it was founded by visionary real estate developer Jim Rouse in 1982. Working with a national network of over 1,900 nonprofit organizations – as well as private sector and government partners at all levels – The Enterprise Foundation operates from the conviction that developing quality affordable housing is the essential first step in a holistic approach to fighting poverty. Moreover, we believe that creating stable communities provides every individual and family in the United States with the opportunity to enter into the mainstream of American life. Consequently, The Enterprise Foundation strengthens its investments in America's transformational neighborhoods by providing community safety programs, as well as access to jobs and child care.

**II. The Enterprise Foundation's Investment in New York City**

Since opening a New York office in 1986, The Enterprise Foundation has helped develop over 11,000 affordable apartments in more than 850 formerly abandoned buildings throughout the greater metropolitan area. This has resulted in improved living conditions for more than 33,000 people – including over 13,000 children.

The Enterprise Foundation's work in New York City is done in collaboration with over 80 legitimate nonprofits – community-based organizations whose leaders have identified their own neighborhoods' most pressing needs and developed workable strategies for solving their own problems. By leveraging investments – from financial institutions, individual donors, foundations, corporations and government agencies – with the skills, dedication, and grassroots networking capabilities of these community leaders, we are able to develop housing programs uniquely qualified to help break the terrible cycle of poverty in the respective communities we serve.

In addition to our work developing affordable rental housing with our community partners, we also have created opportunities for homeownership for low- and moderate-income families through our visionary CityHome Program. Working in collaboration with the New York City department of Housing Preservation and Development (HPD), The Community Preservation Corporation (CPC), and a number of community-based non-profits, we returned nearly 500 dilapidated tax-delinquent properties to the housing market in low-income communities in Harlem, Brooklyn, and the Bronx. Our current involvement in low-income home ownership opportunities includes a significant commitment of over \$2.2 million in short-term low-interest loans to community-based organizations in collaboration with HPD's Neighborhood Homes program.

**III. The Positive Effects of Home Ownership on Low-Income Communities**

It is the experience of The Enterprise Foundation – in New York City and across the United States – that home ownership creates a stabilizing effect on low-income

communities in transition. Families who live in their own homes are far more likely to consider themselves stakeholders in their communities with regard to an entire spectrum of issues – ranging from maintenance to reducing crime.

But this is not merely our opinion. A recently released study funded by the Fannie Mae Foundation (described in detail in the attached article from *The New York Times*, July 30, 2001), documents a wide variety of ways in which government-subsidized homeownership programs help stabilize neighborhoods. The study also documents – in minute detail – the overwhelmingly positive effects such programs have on neighboring property values. Unfortunately, the study’s only discouraging finding was how little housing stock remains to be rehabilitated in New York City in contrast to the staggering need. Thus, the troubled 203(k)-financed properties at issue today provide an increasingly rare opportunity for the City and its longtime community-based partners to continue their demonstrably successful large-scale affordable homeownership initiatives.

#### **IV. The Enterprise Foundation and the 203(k) Crisis**

Because The Enterprise Foundation only became involved with the New York City 203(k) program after the fraudulent activity had been detected, we cannot comment on that part of the program’s history.

The Enterprise Foundation was approached by HUD in December of last year to help develop a workable solution to the emerging 203(k) problem. From our first discussions with HUD, Enterprise raised the importance of working with members of the affected communities in moving forward. We also strongly recommended that HUD develop a programmatic approach to rehabilitating the properties in question and returning them to the housing market.

A significant number of the affected properties are occupied by existing tenants. Some are Single Room Occupancies (SROs), legal and illegal. Efforts to properly manage these homes and ensure affordability and non-displacement without appropriate relocation need to be made for these residents, who are victims of the 203(k) problem.

Because of our experience with CityHome and other renovation programs, including occupied rehabilitation, we believe – and clearly stated to HUD – that there exist a number of viable models for working with legitimate nonprofits to renovate these properties and market them as home ownership and/or rental opportunities for low- and moderate-income people. From the beginning of our involvement, we urged HUD to see the damage left by the 203(k) problem as an opportunity to invest in the communities where the properties are located by creating home ownership opportunities. Such opportunities could only reinforce the investments that HUD has already made in these same communities.

Regardless of how HUD was to proceed, two points seemed irrefutable: that further investment would be needed to bring the homes in question up to habitability; and that the longer the damaged portfolio remained dormant, the more damage would be done to the investments made to date. It was our recommendation that HUD subsidize all further renovations needed to make the properties habitable – no matter how significant – in order to keep the buildings’ eventual sales prices affordable to local residents.

The Enterprise Foundation, CPC, and Abyssinian Development Corporation urged HUD to make sure it put processes in motion to evaluate potential contractors, lenders, and prospective buyers, and the original Memorandum of Understanding written by Secretary Cuomo detailed specific roles and responsibilities for each organization participating in the solution to this very serious problem. We have shared these same views with the new team at HUD, with whom we have worked constructively, including at a meeting with Secretary Martinez and senior HUD officials in July.

## **V. Moving Forward**

It is The Enterprise Foundation's firm conviction that the only viable solution to the 203(k) problem will involve a holistic and programmatic approach that will impact the long-range fiscal health of the communities involved by continuing to develop opportunities for low- and middle-income home ownership. We further believe that it is HUD's responsibility to designate every property in the portfolio as a low- or middle-income home ownership opportunity. The Section 203(k) program had been designed as a flexible mortgage product to acquire and rehabilitate foreclosed properties for affordable housing. To that end, we find the \$80 million currently budgeted by HUD for the rehabilitation and marketing of these properties woefully inadequate to the task.

New York City's department of Housing Preservation and Development – the most sophisticated municipal housing agency in the country, with the most experience in rehabilitating and disposing of distressed properties – estimates that it will take \$160 million to redevelop the portfolio. We strongly urge HUD to invest in the continued stabilization of these communities by appropriating sufficient funds to maintain the integrity of its previous investment. Because of HPD's vast experience and their current investment in these neighborhoods, we also recommend that HUD work closely with HPD as the entity to carry out a program to rehabilitate these properties. Most importantly, we urge HUD to recognize the tremendous expertise of legitimate community based non-profits such as Abyssinian Development Corporation and East Brooklyn churches as critical partners in carrying out such a program.

Harlem and Brooklyn's low-income neighborhoods have come a long way in recent years. Their progress has transformed the lives of thousands of working New Yorkers and benefited the entire City. But their success is fragile. For progress to continue, the residents, community groups and private and public sector partners that have made it possible must have confidence that their efforts—and their hopes for further revitalization—will not be eroded by bad practices reminiscent of the unhappy past. Property flipping and rampant real estate speculation could douse the flames of Harlem and Brooklyn's continuing redevelopment. Fixing the 203(k) problem in the manner we have described would help assure that does not happen and make a positive result from a negative situation.

Thanks you for the opportunity to testify.

**Federal Funds Awarded - 1998 through 2000**

<b><u>Awarding Agency/Client</u></b>	<b><u>Source of Federal Funds</u></b>	<b><u>Contract/Grant Number</u></b>	<b><u>Award Date</u></b>	<b><u>End Date</u></b>	<b><u>Award Value</u></b>
Department of Housing & Urban Development	Same	B-97-NC-MD-0002	1/30/1998	1/30/2002	\$4,550,000
Texas Planning Council for Develop. Disabilities	Same	DD98211	6/1/1998	5/31/1999	\$241,578
State of Utah	Dept.of Housing & Urban Devel.	98-249/244-OR	7/1/1998	6/30/2001	\$186,667
Corporation for National Service	Same	95ADNMD007	9/2/1998	12/31/1999	\$1,366,646
Department of Housing & Urban Development	Same	B-98-NC-MD-0004	9/30/1998	9/29/2002	\$7,500,000
Oregon Commission	Corporation for National Service	94ADCORO381101	10/1/1998	9/30/2000	\$443,010
Corporation for National Service	Same	98APNMD053	11/1/1998	4/26/2001	\$143,675
Department of Labor	Same	Y-7187-9-00-81-60	2/1/1999	3/31/2002	\$7,999,687
Department of Housing & Urban Development	Same	MD-BG-000299	2/1/1999	1/31/2002	\$387,209
Department of Housing & Urban Development	Same	MD-HO-000599	2/1/1999	1/31/2002	\$3,577,741
Department of Housing & Urban Development	Same	MD-HM-000399	2/1/1999	1/31/2002	\$1,673,282
Department of Housing & Urban Development	Same	MD-SH-000799	2/1/1999	1/31/2002	\$465,878
Ohio Capitol Corporation	Dept.of Housing & Urban Devel.	99-472-CLEV(Cartales)	5/1/1999	4/30/2002	\$345,000
NYCHA	Dept.of Housing & Urban Devel.	99-299-HOPEVI-NYC	5/14/1999	5/13/2001	\$600,000
City & County of Denver	Dept. of Labor	GE91138	5/17/1999	5/16/2000	\$200,000
Texas Planning Council for Develop. Disabilities	Same	DD99311	6/1/1999	7/30/2000	\$250,000
Texas Planning Council for Develop. Disabilities	Same	DD99117	7/1/1999	5/31/2004	\$1,050,000
Department of Housing & Urban Development	Same	B-99-SP-MD-0138	8/23/1999	8/22/2001	\$500,000
City & County of Denver	Dept.of Housing & Urban Devel.	00-054-DENV	9/1/1999	12/31/2000	\$45,000
City & County of Denver	Dept.of Housing & Urban Devel.	GE02018	9/1/1999	12/31/2000	\$241,850
NYC HPD	Dept. of Labor	99-385-NYC-HPD	10/1/1999	9/30/2001	\$5,500,000
Corporation for National Service	Same	95ADNMD007	10/22/1999	12/31/2000	\$1,327,733
Department of Housing & Urban Development	Same	B-99-NC-MD-0005	11/8/1999	11/7/2003	\$7,500,000
Department of Housing & Urban Development	Same	B-00-NC-MD-0006	1/1/2000	12/31/2004	\$10,000,000
City & County of Denver	Dept.of Housing & Urban Devel.	GE01163	1/1/2000	12/31/2000	\$175,000
<b>Total</b>					<b>\$56,269,956</b>